Mayo Clinic

Consolidated Interim Financial Statements (Unaudited)
June 30, 2016

Mayo Clinic

Contents

Financial Statements

MAYO CLINIC

Consolidated Statements of Financial Position
June 30, 2016 and December 31, 2015 (Unaudited in Millions)

Assets	June 30, 2016	December 31, 2015
Current Assets		
Cash and equivalents	$ 54	$ 53
Accounts receivable for medical services, less allowances for uncollectible accounts of $764 as of June 30, 2016 and $531 as of December 31, 2015	1,763	1,658
Securities lending collateral loan	114	105
Other receivables	300	273
Other current assets	181	169
Total current assets	2,412	2,258
Investments	7,170	7,061
Investments Under Securities Lending Agreement	119	111
Other Long-Term Assets	612	633
Property, Plant and Equipment, net	4,287	4,230
Total assets	$ 14,600	$ 14,293
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 357	$ 399
Accrued payroll	633	617
Accrued employee benefits	138	133
Deferred revenue	46	40
Long-term variable rate debt	560	360
Securities lending payable	114	105
Other current liabilities	310	315
Total current liabilities	2,158	1,969
Long-Term Debt	2,483	2,388
Accrued Pension and Postretirement Benefits, net of current	1,172	1,323
Other Long-Term Liabilities	1,012	966
Total liabilities	6,825	6,646
Net Assets		
Unrestricted	5,288	5,162
Temporarily restricted	1,289	1,319
Permanently restricted	1,198	1,166
Total net assets	7,775	7,647
Total liabilities and net assets	$ 14,600	$ 14,293

See Notes to Consolidated Financial Statements.

MAYO CLINIC

Consolidated Statements of Activities
For the Three Months Ended June 30, 2016 and 2015 (Unaudited in Millions)

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:								
Net medical service revenue	$ 2,315	$ -	$ -	$ 2,315	$ 2,155	$ -	$ -	$ 2,155
Grants and contracts	115	-	-	115	103	-	-	103
Investment return allocated to current activities	61	10	-	71	51	8	-	59
Contributions available for current activities	8	20	-	28	3	43	-	46
Premium revenue	36	-	-	36	37	-	-	37
Other	186	-	-	186	169	-	-	169
Net assets released from restrictions	49	(49)	-	-	43	(43)	-	-
Total revenue, gains and other support	2,770	(19)	-	2,751	2,561	8	-	2,569
Expenses:								
Salaries and benefits	1,691	-	-	1,691	1,559	-	-	1,559
Supplies and services	710	-	-	710	665	-	-	665
Facilities	179	-	-	179	166	-	-	166
Finance and investment	25	-	-	25	25	-	-	25
Total expenses	2,605	-	-	2,605	2,415	-	-	2,415
Income (loss) from current activities	165	(19)	-	146	146	8	-	154
Noncurrent and other items:								
Contributions not available for current activities, net	(3)	1	11	9	(1)	(3)	20	16
Unallocated investment return, net	(7)	13	-	6	41	24	-	65
Income tax expense	(4)	-	-	(4)	(6)	-	-	(6)
Miscellaneous	-	-	-	-	(3)	-	-	(3)
Total noncurrent and other items	(14)	14	11	11	31	21	20	72
Increase (decrease) in net assets before other changes in net assets	151	(5)	11	157	177	29	20	226
Pension and other postretirement benefit adjustments	3	-	-	3	11	-	-	11
Increase (decrease) in net assets	154	(5)	11	160	188	29	20	237
Net assets at beginning of period	5,134	1,294	1,187	7,615	4,860	1,345	1,117	7,322
Net assets at end of period	$ 5,288	$ 1,289	$ 1,198	$ 7,775	$ 5,048	$ 1,374	$ 1,137	$ 7,559

See Notes to Consolidated Financial Statements.

MAYO CLINIC

Consolidated Statements of Activities
For the Six Months Ended June 30, 2016 and 2015 (Unaudited in Millions)

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:								
Net medical service revenue	$ 4,581	$ -	$ -	$ 4,581	$ 4,252	$ -	$ -	$ 4,252
Grants and contracts	222	-	-	222	197	-	-	197
Investment return allocated to current activities	124	19	-	143	100	14	-	114
Contributions available for current activities	21	35	-	56	12	59	-	71
Premium revenue	77	-	-	77	74	-	-	74
Other	357	-	-	357	345	-	-	345
Net assets released from restrictions	82	(82)	-	-	73	(73)	-	-
Total revenue, gains and other support	5,464	(28)	-	5,436	5,053	-	-	5,053
Expenses:								
Salaries and benefits	3,377	-	-	3,377	3,117	-	-	3,117
Supplies and services	1,400	-	-	1,400	1,312	-	-	1,312
Facilities	354	-	-	354	332	-	-	332
Finance and investment	50	-	-	50	50	-	-	50
Total expenses	5,181	-	-	5,181	4,811	-	-	4,811
Income (loss) from current activities	283	(28)	-	255	242	-	-	242
Noncurrent and other items:								
Contributions not available for current activities, net	(8)	5	32	29	(4)	-	29	25
Unallocated investment return, net	(150)	(7)	-	(157)	45	51	-	96
Income tax expense	(8)	-	-	(8)	(15)	-	-	(15)
Miscellaneous	2	-	-	2	(4)	-	-	(4)
Total noncurrent and other items	(164)	(2)	32	(134)	22	51	29	102
Increase (decrease) in net assets before other changes in net assets	119	(30)	32	121	264	51	29	344
Pension and other postretirement benefit adjustments	7	-	-	7	23	-	-	23
Increase (decrease) in net assets	126	(30)	32	128	287	51	29	367
Net assets at beginning of period	5,162	1,319	1,166	7,647	4,761	1,323	1,108	7,192
Net assets at end of period	$ 5,288	$ 1,289	$ 1,198	$ 7,775	$ 5,048	$ 1,374	$ 1,137	$ 7,559

See Notes to Consolidated Financial Statements.

MAYO CLINIC

Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2016 and 2015 (Unaudited in Millions)

	2016	2015
Cash Flows From Current Activities		
Increase in net assets	$ 128	$ 367
Adjustments to reconcile changes in net assets to net cash provided by current activities:		
Depreciation and amortization	238	221
Provision for uncollectible accounts	106	81
Net realized and unrealized loss (gain) on investments	33	(210)
Restricted gifts, bequests, and other income	(32)	(29)
Net change in accounts receivable and other current assets and liabilities	(247)	(198)
Pension and other postretirement benefits adjustment	(151)	(141)
Net change in other long-term assets and liabilities	62	-
Net cash used for current activities	137	91
Cash Flows From Investing Activities		
Purchase of property, plant, and equipment	(295)	(249)
Purchases of investments	(1,068)	(1,775)
Sales and maturities of investments	918	1,943
Net cash used for investing activities	(445)	(81)
Cash Flows From Financing Activities		
Restricted gifts, bequests and other income	37	16
Borrowings on long-term debt	547	-
Payment of long-term debt	(275)	(22)
Net cash provided by (used) for financing activities	309	(6)
Net increase in cash and cash equivalents	1	4
Cash and Cash Equivalents at Beginning of Period	53	55
Cash and Cash Equivalents at End of Period	$ 54	$ 59

See Notes to Consolidated Financial Statements.

Note 1. Basis of Presentation

Mayo Clinic (the Clinic) and its Arizona, Florida, Georgia, Iowa, Minnesota and Wisconsin affiliates provide comprehensive medical care and education in clinical medicine and medical sciences and conduct extensive programs in medical research. The Clinic and its affiliates also provide hospital and outpatient services, and at each major location, the clinical practice is closely integrated with advanced education and research programs. The Clinic has been determined to qualify as a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code (Code) and as a public charity under Section 509(a) (2) of the Code. Included in the Clinic's consolidated financial statements are all of its wholly owned or wholly controlled subsidiaries, which include both tax-exempt and taxable entities. All significant intercompany transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the six months ended June 30, 2016, are not necessarily indicative of the results to be expected for the year ending December 31, 2016. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended December 31, 2015.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

Note 2. New Accounting Standard

New Accounting Standards Adopted

During the quarter ended March 31, 2016, the Clinic adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-17, *Balance Sheet Classification of Deferred Taxes* (Subtopic 740-10) which requires classification of all deferred tax assets and liabilities as noncurrent on the balance sheet. In addition, valuation allowances are no longer allocated between current and noncurrent deferred tax assets. The adoption of this ASU did not materially impact the consolidated financial statements.

During the quarter ended March 31, 2016, the Clinic adopted FASB ASU No. 2015-05, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40), Customer's Accounting for Fees Paid in a Cloud Computing Arrangement,* which provides guidance about whether a cloud computing arrangement includes a software license. Cloud computing arrangements which include a software license will be accounted for consistent with the acquisition of other software licenses. Those arrangements that do not include a software license, will be accounted for as a service contract. In addition, all software licenses will be accounted for consistent with other licenses of intangible assets. The adoption of this ASU did not materially impact the consolidated financial statements.

Note 2. New Accounting Standard (Continued)

New Accounting Standards Recently Issued

In February 2016, the FASB issued ASU No. 2016-02*, Leases* (Topic 842). This ASU will require lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by a lease. Lessor accounting will remain largely unchanged from current GAAP. The ASU will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. This update is effective during interim and annual periods beginning on or after January 1, 2019.

In March 2016, the FASB issued ASU No. 2016-07, *Investments—Equity Method and Joint Ventures* (Topic 323). This ASU simplifies the accounting for equity method investments, and requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of income is required. The update is effective during interim and annual periods beginning on or after January 1, 2017.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers* (Topic 606).This ASU clarifies the implementation guidance on principal versus agent considerations. This update is effective during interim and annual periods beginning on or after January 1, 2018.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers* (Topic 606). This ASU clarifies guidance related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard. This update is effective during interim and annual periods beginning on or after January 1, 2018.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers* (Topic 606): Narrow-Scope Improvements and Practical Expedients. This ASU clarifies guidance related to implementation issues that could arise when organizations implement the new revenue guidance. The effective date for this update is the same as the effective date and transition requirements for ASU 2014-09 and any amendments to it.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326):* Measurement of Credit Losses on Financial Instruments. This ASU provides financial statement users with more decision-useful information about the expected credit losses on financial instruments and other documents to extend credit held by a reporting entity. This update is effective during interim and annual periods beginning on or after January 1, 2020.

The Clinic is currently assessing the impact of the preceding ASU's on its consolidated financial statements.

June 30, 2016 (Unaudited in Millions)

Note 3. Allowance for Uncollectible Accounts

Accounts receivable are reduced by an allowance for uncollectible accounts and stated at net realizable value. In evaluating the collectability of accounts receivable, the Clinic analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Clinic analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts. The difference between the standard rates (or the discounted rates if negotiated or as provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Clinic's allowance for uncollectible accounts was 30.2 percent of accounts receivable at June 30, 2016 compared to 24.3 percent of accounts receivable at December 31, 2015. In addition, the Clinic's write-offs were $27 million for the six months ended June 30, 2016 compared to $31 million for the six months ended June 30, 2015. The Clinic has not changed its charity care policies.

Net medical service revenue for the six months ended June 30 consisted of the following:

	2016	2015
Medical service revenue (net of contractual allowances and discounts)	$ 4,683	$ 4,333
Provision for uncollectible accounts	(102)	(81)
Net medical service revenue	$ 4,581	$ 4,252

The Clinic recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Clinic recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a portion of the Clinic's patients will be unable or unwilling to pay for the services provided. Thus, the Clinic records a provision for uncollectible accounts related to patients in the period the services are provided. Medical service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the period from these major payor sources, is as follows:

	2016	2015
Third-party payors	$ 4,474	$ 4,156
Self-pay	209	177
Total all payors	$ 4,683	$ 4,333

Note 4. Investments

Investments in equity, debt securities, and alternative investments are recorded at fair value. Realized gains and losses are calculated based on the average cost method. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) are included in the consolidated statements of activities.

Alternative investments (principally limited partnership interests in absolute return, hedge, private equity, real estate and natural resources funds), represents the Clinic's ownership interest in the net asset value (NAV) of the respective partnership. The investments in alternative investments may individually expose the Clinic to securities lending, short sales, and trading in futures and forward contract options and other derivative products. The Clinic's risk is limited to the investment's carrying value.

From time to time, the Clinic invests directly in certain derivative contracts that do not qualify for hedge accounting and are recorded at fair value in investments. Changes in fair value are reported as a component of net unrealized gains or losses in the investment returns. These contracts are used in the Clinic's investment management program to minimize certain investment risks. At June 30, 2016 and December 31, 2015, the realized and unrealized loss from derivative contracts totaled $18 and $41, respectively.

It is the Clinic's intent to maintain a long-term investment portfolio to support research, education, and other activities. Accordingly, the total investment return is shown in the consolidated statements of activities in two segments. The investment return allocated to current activities is determined by a formula, which involves allocating 5 percent of a three-year moving average of investments related to endowments and additionally entails the matching of financing costs for the assets required for operations. Management believes this return is approximately equal to the real return that the Clinic expects to earn on its investments over the long term. The unallocated investment return, included in noncurrent and other items in the consolidated statements of activities, represents the difference between the total investment return and the amount allocated to current activities.

Note 5. Fair Value Measurements

The Clinic holds certain financial instruments that are required to be measured at fair value on a recurring basis. The valuation techniques used to measure fair value under the Fair Value Measurements and Disclosures topic of the ASC are based upon observable and unobservable inputs. The standard establishes a three level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Clinic's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer. There were no significant transfers or activity within investment levels for the six months ended June 30, 2016 and 2015.

Notes to Consolidated Financial Statements
June 30, 2016 (Unaudited in Millions)

Note 5. Fair Value Measurements (Continued)

The following tables present the financial instruments carried at fair value as of June 30, 2016, and December 31, 2015, by caption on the statement of financial position by the valuation hierarchy defined above:

	June 30, 2016				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets:					
Securities lending collateral	$ 114	$ -	$ -	$ -	$ 114
Investments:					
Cash and cash equivalents	723	-	-	-	723
Fixed-income securities:					
U.S. government	-	255	-	-	255
U.S. government agencies	-	257	-	-	257
U.S. corporate	-	256	7	-	263
Foreign	-	18	-	-	18
Common and preferred stocks:					
U.S.	454	-	2	-	456
Foreign	405	-	-	-	405
Funds:					
Fixed-income	437	-	-	-	437
Equities	517	111	-	-	628
Other investments	(15)	-	-	-	(15)
Less securities under lending agreement	(119)	-	-	-	(119)
Investments at NAV	-	-	-	3,862	3,862
Total investments	2,402	897	9	3,862	7,170
Investments under securities lending agreement	119	-	-	-	119
Other long-term assets:					
Trust receivables	86	33	54	-	173
Technology-based ventures	-	-	25	-	25
Total other long-term assets	86	33	79	-	198
Total assets at fair value	$ 2,721	$ 930	$ 88	$ 3,862	$ 7,601
Liabilities:					
Securities lending payable	$ 114	$ -	$ -	$ -	$ 114
Total liabilities at fair value	$ 114	$ -	$ -	$ -	$ 114

June 30, 2016 (Unaudited in Millions)

Note 5. Fair Value Measurements (Continued)

	December 31, 2015				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets:					
Securities lending collateral	$ 105	$ -	$ -	$ -	$ 105
Investments:					
Cash and cash equivalents	720	-	-	-	720
Fixed-income securities:					
U.S. government	-	175	-	-	175
U.S. government agencies	-	217	-	-	217
U.S. corporate	-	309	8	-	317
Foreign	-	17	-	-	17
Common and preferred stocks:					
U.S.	439	-	2	-	441
Foreign	419	-	-	-	419
Funds:					
Fixed-income	390	-	-	-	390
Equities	489	118	-	-	607
Other investments	16	-	-	-	16
Less securities under lending agreement	(111)	-	-	-	(111)
Investments at NAV	-	-	-	3,853	3,853
Total investments	2,362	836	10	3,853	7,061
Investments under securities lending agreement	111	-	-	-	111
Other long-term assets:					
Trust receivables	86	33	54	-	173
Technology-based ventures	-	-	37	-	37
Total other long-term assets	86	33	91	-	210
Total assets at fair value	$ 2,664	$ 869	$ 101	$ 3,853	$ 7,487
Liabilities:					
Securities lending payable	$ 105	$ -	$ -	$ -	$ 105
Total liabilities at fair value	$ 105	$ -	$ -	$ -	$ 105

June 30, 2016 (Unaudited in Millions)

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Note 5. Fair Value Measurements (Continued)

Following is a description of the Clinic's valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers and brokers. Level 3, primarily consists of trusts recorded at fair value based on the underlying value of the assets in the trust or discounted cash flow of the expected payment streams. The trusts reported as Level 3 are primarily perpetual trusts managed by third parties invested in stocks, mutual funds, and fixed-income securities that are traded in active markets with observable inputs, which would result in Level 1 and 2 hierarchal reporting. However, since the Clinic will never receive the trust assets, these perpetual trusts are reported as Level 3.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Clinic believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The carrying values of cash, cash equivalents, and short-term investments, accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The estimated fair value of long-term debt, based on quoted market prices for the same or similar issues (Level 2), was approximately $196 million and $32 million more than its carrying value at June 30, 2016 and December 31, 2015, respectively. Other long-term assets and liabilities have a carrying value that approximates fair value.

The following information pertains to those alternative investments recorded at NAV in accordance with the Fair Value Measurements and Disclosures topic of the FASB ASC.

At June 30, 2016, alternative investments recorded at NAV consisted of the following:

		Fair Value	Unfunded Commitment	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Absolute return/hedge funds	(a)	$ 2,156	$ -	Monthly to annually	30-90 days
Private partnerships	(b)	1,706	1,085		
		$ 3,862	$ 1,085		

June 30, 2016 (Unaudited in Millions)

Note 5. Fair Value Measurements (Continued)

At December 31, 2015, alternative investments recorded at NAV consisted of the following:

		Fair Value	Unfunded Commitment	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Absolute return/hedge funds	(a)	$ 2,175	$ -	Monthly to annually	30-90 days
Private partnerships	(b)	1,678	1,023		
		$ 3,853	$ 1,023		

(a) This category includes investments in absolute return/hedge funds, which are actively managed commingled investment vehicles that derive the majority of their returns from factors other than the directional flow of the markets in which they invest. Representative strategies include high-yield credit, distressed debt, merger arbitrage, relative value, and long-short equity strategies. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Investments in this category generally carry “lock-up” restrictions that do not allow investors to seek redemption in the first year after acquisition. Following the initial lock-up period, liquidity is generally available monthly, quarterly, or annually following a redemption request. Over 90 percent of the investments in this category have at least annual liquidity.

(b) This category includes limited partnership interests in closed-end funds that focus on venture capital, private equity, real estate, and resource-related strategies. The fair values of the investments in this category have been estimated using the net asset value of the Clinic’s ownership interest in partners’ capital. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of most funds will generally be liquidated over a seven to 10-year period.

Note 6. Securities Lending

The Clinic has an arrangement with its investment custodian to lend Clinic securities to approved brokers in exchange for a fee. Among other provisions that limit the Clinic’s risk, the securities lending agreement specifies that the custodian is responsible for lending securities and obtaining adequate collateral from the borrower. Collateral is limited to cash, government securities, and irrevocable letters of credit. Investments are loaned to various brokers and are returnable on demand. In exchange, the Clinic receives collateral. The cash collateral is shown as both an asset and a liability on the consolidated statements of financial position.

At June 30, 2016 and December 31, 2015, the aggregate market value of securities on loan under securities lending agreements totaled $119 million and $111 million, respectively, and the total value of the collateral supporting the securities is $122 million and $116 million, respectively, which represents 103 percent and 104 percent of the value of the securities on loan at June 30, 2016 and December 31, 2015, respectively. The cash portion of the collateral supporting the securities as of June 30, 2016 and December 31, 2015 is $114 million and $105 million, respectively. Noncash collateral provided to the Clinic is not recorded in the Statement of Financial Position, as the collateral may not be sold or re-pledged. The Clinic’s claim on such collateral is limited to the market value of loaned securities. In the event of nonperformance by the other parties to the securities lending agreements, the Clinic could be exposed to some loss.

Note 7. Financing

On March 17, 2016, the Clinic issued $350 in taxable bonds, with a fixed rate of interest of 4.128% and principal due in varying amounts through 2052. The bond proceeds will be used for eligible corporate purposes. On May 3, 2016, the Clinic issued tax-exempt, variable-rate demand revenue bonds in the aggregate principal amount of $200 due November 15, 2047. The bonds are redeemable prior to maturity at par. The proceeds of the bonds were used to refund $200 of the 2006 fixed rate bonds. In addition, the Clinic refunded $50 of additional outstanding 2006 bonds.

Note 8. Commitments and Contingencies

The Clinic has various construction projects in progress related to patient care, research, and educational facilities. The estimated costs committed to complete the various projects at December 31, 2015, approximated $1,003 million, all of which is expected to be expended over the next three to five years.

One of the Clinic's affiliation agreements limits the involvement of a third party in operations of a consolidated affiliate. A process exists to resolve disputes; however, in the event of an irreconcilable dispute between the parties, the agreement further provides for a one-time payment of approximately $87 million by the consolidated affiliate to release the third party from the affiliation. Such payment would be subordinate to other debtors of the consolidated affiliated entity. No amount has been accrued in the consolidated financial statements for this contingency.

Laws and regulations concerning government programs, including Medicare, Medicaid, and various research grant programs, are complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. As a result of nationwide investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. The Clinic expects that the level of review and audit to which it and other health care providers are subject will increase. There can be no assurance that regulatory authorities will not challenge the Clinic's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Clinic.

The Clinic is a defendant in various lawsuits arising in the ordinary course of business and records an estimated liability for probable claims. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Clinic's consolidated financial position or statement of activities.

June 30, 2016 (Unaudited in Millions)

Note 9. Employee Benefit Programs

The Clinic serves as plan sponsor for several defined-benefit pension funds and other postretirement benefits.

Components of net periodic benefit cost for the periods ended June 30, 2016 and 2015 are as follows for the defined-benefit pension funds:

	Qualified	
	2016	2015
Service cost	$ 184	$ 196
Interest cost	168	154
Expected return on plan assets	(279)	(256)
Amortization of unrecognized:		
Prior service benefit	(29)	(30)
Net actuarial loss	62	79
Net periodic benefit cost	$ 106	$ 143

Components of net periodic benefit cost for the other postretirement benefits are as follows:

	Postretirement Benefits	
	2016	2015
Service cost	$ 5	$ 6
Interest cost	19	17
Amortization of unrecognized:		
Prior service benefit	(27)	(27)
Net actuarial loss	1	2
Net periodic benefit	$ (2)	$ (2)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Postretirement Benefits
Years ending December 31:	
2016	$ 39
2017	39
2018	40
2019	42
2020	44
2021 - 2025	244

June 30, 2016 (Unaudited in Millions)

Note 9. Employee Benefit Programs (Continued)

The following reflects the expected future Medicare Part D subsidy receipts:

Years ending December 31:		
2016	$	5
2017		5
2018		5
2019		6
2020		6
2021 - 2025		33

Note 10. Subsequent Events

The Clinic evaluated events and transactions occurring subsequent to June 30, 2016 through August 11, 2016, the date of issuance of the financial statements. During this period, there were no subsequent events requiring recognition in the consolidated financial statements. Additionally, there were no nonrecognized events requiring disclosure.